



SEPTEMBER, 1948

BUSINESS CONDITIONS

A REVIEW BY THE FEDERAL RESERVE BANK OF CHICAGO

Member Bank Lending 1947-48

Smaller Institutions Show Greatest Loan Expansion

During the first half of 1948, total loans made by member banks in the largest financial centers in the Seventh District fell 1.8 per cent compared with a rise of 8.8 per cent among member banks in the remainder of the District. The loan expansion in the smaller centers, moreover, bulked sufficiently large to lift the loan total for all District member banks 1.6 per cent for the six-month period. Member banks generally experienced loan increases of about 13.5 per cent in the second half of 1947 (see Table 1).

It thus becomes apparent that larger banks in the principal centers, and especially in Chicago, Indianapolis, and Des Moines, have been primarily responsible for the widely discussed slowing up in District member bank lending during the initial half of 1948. Since midyear, however, a new upturn has occurred in bank lending in these larger bank centers, including Detroit and Milwaukee, which experienced no actual decline earlier this year. As a result, with sustained loan expansion in the smaller communities, total bank lending once again has resumed an upward movement on a broadened front. No measurable effects of recent steps to restrain bank credit through higher short-term interest rates and greater authority to raise member bank reserves have yet been observed.

Business loans, quantitatively the most important type of loan among District member banks, actually declined during the first half of 1948. Banks in the five larger District cities mentioned account for about 84 per cent of District member bank business loans.¹ Real estate and consumer loans of District member banks have continued

to expand during 1948, although at a somewhat slower pace than in 1947 (see Table 2), and are directly responsible for the over-all increase in bank loans since the beginning of the year.

As indicated in the previous issue of *Business Conditions*, considerable difference of opinion exists concerning the significance to be attached to the observed slackened lending pace throughout the District and nation during the first six months of the year, and also regarding loan prospects in coming months. The recent special session of Congress served to turn the national spotlight once again on the inflationary forces still operating.

To help prevent a renewed credit expansion from adding further inflationary fuel, Congress enacted and the President signed a law giving the Board of Governors of the Federal Reserve System authority to raise member bank reserve requirements an additional four per cent on demand deposits, and one and one-half per cent on time deposits, and to regulate down payments and maturities on consumer instalment credit. The recent actions of the Treasury in raising short-term interest rates and the Federal Reserve Banks in increasing rediscount rates are widely interpreted in financial circles as additional anti-

¹Business loans are often referred to as commercial and industrial loans. Including all types of loans, the five cities account for approximately two-thirds of the District total.
²From the end of 1947 to late June 1948, total loans of reporting banks throughout the nation increased by two per cent, compared with a gain of slightly more than four per cent in the corresponding period of the previous year, rather than as given in the July 1948 issue of *Business Conditions*.

(Continued on Page 8)

| Area | Percentage Change | |
|--------------------------------------------------------------------------|--------------------|---------------------|
| | First Half 1948 | Second Half 1947 |
| Detroit..... | +5.4 | + 9.2 |
| Milwaukee..... | +2.2 | +13.9 |
| Indianapolis..... | -2.4 | +10.3 |
| Chicago..... | -3.8 | +14.7 |
| Des Moines..... | -5.7 | +15.2 |
| Five principal cities combined..... | -1.8 | +13.6 |
| Seventh Federal Reserve District exclusive of five principal cities..... | +8.8 | +13.5 |
| Seventh Federal Reserve District... | +1.6 | +13.5 |

| Type | Percentage Change | | Percentage of Each Type of Loan to Total Loans as of June 30, 1948 |
|--------------------------------|--------------------|---------------------|--------------------------------------------------------------------------------|
| | First Half 1948 | Second Half 1947 | |
| Business loans..... | - 1.6 | +16.6 | 50.9 |
| Real estate loans..... | + 7.2 | +13.3 | 24.8 |
| Consumer loans..... | +12.3 | +19.2 | 14.9 |
| Loans to carry securities..... | -14.5 | -15.3 | 4.2 |
| Loans to farmers..... | + 8.5 | +21.5 | 3.0 |
| Loans to banks..... | + 8.1 | + 7.3 | 1 |
| All other loans..... | +21.7 | -10.3 | 2.2 |
| Total..... | + 1.6 | +13.5 | 100.0 |

¹Less than one-tenth of one per cent.

High Risks in Beef Feeding

Uncertainties Make Decisions Difficult

There has scarcely been a year in Corn Belt feed lot history when the feeding and fattening of cattle have presented to operators an enigma such as they face this season. In sharp contrast to the 1947-48 season the current prospect is for a plethora of feeds. With the nation's agricultural plant giving promise today of breaking all records in crop out-turn there is thus on the supply side the likelihood that feed concentrates will be abundant. Last year's troubles in obtaining feed resulted in a material reduction of the nation's livestock population. As a result the total of feed concentrates per animal unit on farms will be at or near all-time record levels in the year ahead. Grain prices have declined recently and are expected to decline further as crops approach marketing.

But it is in large measure these very declining grain prices that are the major disturbing element in appraising feeding operations for the 1948-49 season. To some extent these price readjustments, that have been brought about by the changing supply situation in this country and to a lesser extent by some material improvement in world grain production, are taken seriously and with foreboding by many producers as "the beginning of the end" to the recent record levels for farm prices generally. Such views may be due to misapprehensions, but the grain-price situation is sufficiently serious and involved to have led to the conclusion in the minds of many thoroughly responsible students of the situation that the Government will be unable, primarily because of inadequate storage facilities, to keep grain prices from falling below the support level of 90 per cent of parity which the price-support legislation requires.

The feeling that the only way farm prices are likely to go is down gives rise to uneasiness over the future of finished livestock prices. It is of course generally recognized that the amplitude of feed supplies will in time mean more meat and livestock products, and thus presumably lower prices, but it is the question of the timing and the magnitude of the likely adjustments that puzzle livestock producers. It is believed, however, that as long as employment and incomes stay at or near present levels, the present high and aggressive demand for meat and livestock products will continue to support relatively high prices for livestock for some months to come, and at least until, with the expanded grain supplies and after due time allowance for the reproductive cycle in livestock to work itself out, greater supplies of livestock and livestock products are made available to the American family table.

SLAUGHTER DEMAND SUPPORTS FEEDER PRICES

Paradoxical as it may seem, it is this very factor, the strong demand for meat, that stares the cattle feeder in the face and torments him in deciding what and how long

to feed. It is a troublesome factor because in the next few months, when the bulk of feeder stock would be or should be moving into Corn Belt feed lots, the continuing relative shortage of good meat will place price premiums on anything that is worth slaughtering, and the feeder will be forced to bid against slaughterers for the stock he will want to place on feed. When to this is added more than the usual uncertainty which operators feel about prices of finished stock next year when they are to be sent to market, it is easy to understand why some may feel that the advantages of lower feed prices may be offset, if not more than offset, by possibly lower prices for finished animals when they come to market. And of course the longer the program of feeding to which the producer is accustomed, the more troublesome these uncertainties about livestock prices next year can become.

While it is not the intent to imply here that general recession or price declines are strong probabilities of the next eight to 10 months, it must be reported that many producers have some worries on this score in addition to the more restricted area of probable price declines for farm products by themselves. Doubt on this larger score touches the whole question of a level of demand for farm products if such economic reversal should develop, and naturally makes the prospective feeder more dubious of the future than his more optimistic brothers.

All the ramifications of that part of the farm economy devoted to supplying finished beef involve too many intricate and complex relationships to be able to reduce them to compact treatment in a brief article such as this. It is therefore necessary to simplify and condense here in order to bring out some of the factors that must be weighed in the current situation. Feeders put stock on feed in order to "finish" them for market. Such finishing is made up of two parts: the added weight which the animals acquire in the feed lot; and the improvement in acceptable quality of the animal at the market. The producer must make his profits from these two factors, and must do it efficiently or he has a loss, although there are some years when profits are made from a rising price level. In the case of steers it is usually from the up-grading or improvement in quality of the animal which is of most importance. It is often said that steer fattening is not normally profitable, especially heavier steers, unless it results in taking back to market a higher grade animal than was put into the lot, that is, that weight gains alone on steers do not normally pay for themselves. Thus it is necessary, if steer feeders are to "break even," to be able to sell the finished steers at a higher price than the cost per hundredweight when they were put into the lot. This difference between buying and selling price per hundredweight of steers is referred to as a necessary margin to the producer and in the Corn Belt has been usually regarded as being

about two dollars per hundredweight. This is a very loose rule-of-thumb, and it was developed during a period when steer prices were normally substantially below the levels of recent years.

For purposes of illustration a simplified comparison is presented as a review of more or less typical Corn Belt feeding conditions during the period since 1920. Corn Belt feeders purchase their stock at several markets, particularly Kansas City, Omaha, Chicago, and to some extent Sioux City and South St. Paul. They also buy substantial quantities direct from breeders. For comparisons over time no great error is introduced by treating the situation as if all purchases had been made at the Chicago market and at Chicago prices. It should be understood that in arriving at the margins to be discussed the margins are too large by the cost of getting the feeder steers from the market to the feed lot and back to the market. Ordinarily, although there are outstanding exceptions in some years and in some situations, the credits to the operation from manure saved and used and the gains in pork from hogs following steers roughly offset all costs of feed lot operation except feeds and marketing costs.

Taking as a typical spread or margin subject to the above limitations the difference between the October Chicago average price for all steer feeders (which is usually the peak month of purchase) and the Chicago price for all steers for slaughter the following April (as representing a typical marketing month), the margin has averaged only \$2.85 for the 27 years 1920-21 through 1947-48. While there was never during this period a year in which the margin became a negative one, there were seven years when it was less than two dollars, and in four of these it was one dollar or less. On the other hand the margin exceeded three dollars in 10 years and four dollars in six years. For five recent seasons, beginning with 1941-42 and ending with 1945-46, the margin ranged from three to four dollars.

For last season the average price of all feeder steers at Chicago in October 1947 was \$22.35. In April of this year the average price paid for slaughter steers sold out of first hand from the Corn Belt was \$25.20, giving an average margin of \$2.85. There have been very few years when margins increased after March sufficiently to compensate for the extra feeding. The past season was an exception in this respect. Feeder steers purchased in October and marketed in March returned a margin of only \$1.81, while carrying from October to May of this year yielded a margin of \$4.26, due to the rapid price rise in cattle during the spring.

The relation of these developments to the prospect for the coming year may be seen from a little figuring. It would appear now that feeder steer prices this fall, say October, are likely to average around \$28.00 to \$29.00 for all grades at Chicago, if not even higher. A two dollar margin would mean that these would have to bring \$30 to \$31 next spring on the Chicago market. While this does not sound high in view of the recent prices of over \$36, it is nevertheless about five dollars above the prices realized this spring, and producers find some difficulty in picturing prices at that level next spring. And there are some

who are so pessimistic about the picture as to fear that they may have to sell \$28 or \$29 feeders as slaughter animals next spring for no more than they paid for them. In spite of all these misgivings, however, it seems probable now that more cattle will be fed this year than last. There are reasons for expecting steer prices next spring to range from \$32 to \$35.

Several factors enter into the size of margin the feeder must have to make a satisfactory return on the steer fattening operation. These will be first briefly examined, and then their bearing on the current situation will be treated. Since normally the gains in weight made during fattening are made at a loss, the greater the gain in weight, the greater will be the loss on such gains, and therefore the larger the margin the feed lot operator must have. Moreover, these losses normally are accentuated the greater the extra weight put on the animal because after maturity the efficiency of gain per unit of feed decreases.

COST OF GAIN AN IMPORTANT FACTOR

Closely related to this is the matter of the costs of the gains made. The higher the feed costs of the weight gained, the greater normally is the loss on such gains, and therefore the wider the margin needed to overcome these costs. Operators have only partial control over these costs. The prices or values of the feeds, especially feed grains, are for the most part out of the control of the feed lot operator, but efficiency and economy in making the weight gains are known to vary widely and are subject to the skill and knowledge of the operator and his effective use of roughages.

The cost and price of steers are also important factors in the profitability of the operation. Given relatively high prices for the finished animal less margin is required because the selling price per hundredweight yields a relatively high return for the production achieved in raising the grade of the cattle from feeder to slaughter grade. This is most marked when the differentials between the grades are widest. For example, in recent weeks "good" steers commanded a premium of nearly seven dollars per hundredweight over "medium," and the premium for "choice and prime" steers over "good" was around three dollars. There have been several years when such premiums were only one to two dollars, especially in years of relatively low steer prices, but even in April of this year the premium for choice and prime over good was only \$2.20 and for good over medium was \$2.74.

The importance of weight of the steer at the time it is put into the feed lot lies in the fact that the more weight upon which quality or grade improvement can be made, the greater is the profit and the lower the margin required to cover the cost of gains made.

The application of the foregoing principles to the situation currently and for the coming feeding season requires several important qualifications. But before entering into that it may be well to emphasize a number of considerations that constitute the framework of the current situation. First of all, there is little reason to expect that a very strong demand for meats will not continue well into

next year. This is said in spite of present "protests" and housewives strikes or other campaigns against high retail meat prices, which, although not without effect, may be considered to be of minor importance against the background of continued high employment, incomes, and inflationary pressure. The implication of this is that there therefore should be little reason to expect a collapse of the beef market within the limits of the forthcoming feeding season, even though top prices for prime steers may show some easing. Second, with meat continuing short in supply relative to demand, and with some time required to rebuild the nation's meat supplies, it should be expected that bidding will be vigorous this fall by slaughterers for stock that normally goes to feed lots. Third, producers should no longer count on a rising livestock price level generally to provide some of the margins that rising levels have provided in recent years. This means that feeder steers are apt to come high this fall, and a smaller margin or spread may be expected between feeder steers and finished steers for slaughter next spring than has prevailed in recent years. Fourth, the supply of feeds is such that in view of the reduced livestock population on farms feeds will be relatively cheap, and may continue cheap from several months to a few years ahead.

In fact the relatively low costs for feeds in terms of animal prices lead one to conclude that there will be no penalty this year on the gains in weight made in fattening steers and that quite probably and contrary to normal relationships weight gains can be made this year at a profit, especially on lighter weights and not too high a degree of finish. With corn valued at \$1.35 and other feeds in line with present expectations weight gains should cost at most not more than \$20 to \$22 per hundredweight, and it does not now appear likely that finished animals next spring should bring less than such a price. The normal precept in steer feeding which runs against making too great a weight gain in the fattening process, then, is of limited applicability in the present situation. It would therefore appear that there is no need to require a margin on this account in this year's operations.

Much the same reasoning applies to the relative costs of the gains made. If normally margins must be wide enough to take account of the costs of gains, this year it appears that the feed prices being what they are expected to be, costs of gains will be relatively low, and if, as implied above, no losses are incurred for the weight gains, no margin is necessary to cover losses that may not occur.

As to costs and prices of steers, it would appear that the continued strong cattle market into next year will mean a favorable price return on the weight added in the feed lot. Although this element is inseparable from the question of feed costs of the gains, the point is that the added weight, in and of itself, is likely to command a satisfactory price.

FEEDING LIGHT WEIGHTS LESS RISKY

Since it appears likely that premiums for quality will continue to be paid at rates somewhat above normal (except possibly "top" grade going largely to hotel and

restaurant trades), there would seem to be no reason why heavy weights would not be favored for the feed lot in order to get the maximum of such premiums. However, the difficulty on this point is that it is on the heavier cattle, perhaps more than any other, that the feeder will find slaughterer competition most aggressive when he comes to laying in his stock. Were it not for this element, mature steers carrying considerable flesh would be particularly appealing to feeders, especially because the relatively shorter feeding reduces to some extent the gamble on the future of cattle prices. In spite of relatively cheap feeds this year the gains on this class of steer are the most expensive. Other alternatives may prove more attractive, some outside the steer class. It appears now that two-year-old steers can be fed four months at a cost per hundredweight of gain of about \$20 to \$22, and yearling steers can be fed up to five months at about the same average cost per hundred gain. Steer calves can be fed up to seven months at about \$14 to \$15 cost per hundred of gain, especially with judicious use of waste feeds. A cost of \$16 for gains in heifer calves can be had if fed up to six months, and 90 to 110 day feeding of heifer yearlings should show a cost of about \$18 per hundredweight of gain.

In view of the present feed situation, livestock population, human population, and the demand for meat and livestock products it seems that almost every factor is encouraging to expansion of feeding operations. It is only good sense nationally to turn our abundance of grains into the products for which the markets seemingly clamor. Given the present price relationships between livestock and feeds, it is probable that as fast as the nation's farmers are able they will achieve this conversion. These current conditions are favorable to long-time feeding of cattle, that is, the finishing of calves and relatively young stock. If demand and price conditions could be safely reduced from the gambling classification in the mind of the producer, it is quite probable that long-time feeding would be the order of the day. Unfortunately such is not the case, and the qualms the producer may feel with regard to long feeding stem from the fact that he feels that the only way livestock prices can go is down, and that by the fall of next year an expanded pork production may accelerate the declines that seem generally inevitable to him. But a calf feeding program holds considerable promise of profit even if calves do seem to the producer relatively high in price.

This is a year in which feeding should be profitable even in the absence of customary price margins. Moreover, the continuing opportunities in feeding other than steers, or in feeding the lower grades, should not be overlooked. During the past few years, especially the last three, medium grade slaughter steers have commanded a larger premium over good steers than good over choice and prime, and common steers have commanded even larger premiums over good grade. As long as demand for meat continues its present strength, and until meat supplies are considerably more ample than at present, this relationship of prices as between the grades, which is inverted from the normal pattern, will probably continue.

Digest of the Agricultural Act of 1948

Major Changes Scheduled for 1950

In the closing days of the last regular session in June Congress passed the Agricultural Act of 1948. This Act represents a material alteration of previously existing farm legislation. Because the Act is in some ways complicated and not easily understood without some study, there is presented in the following paragraphs a digest of the major provisions of the legislation. There is no certainty at this time as to how permanent this law may be, and it may be that it will be again revised in later sessions, as some agricultural leaders have indicated. Whether or not it is materially changed, in its present form it contains important provisions as to farm price supports and production controls that will be the basis of Federal agricultural programs for several months to come.

BACKGROUND

At the time the Congress was discussing new farm legislation there were widely divergent views in the Senate on one hand and in the House of Representatives on the other as to the form which such legislation should take. The views were so far apart on major points that it was widely believed that Congress would be unable to agree on legislation acceptable to both Houses.

Boiled down to simplest terms, the position of agricultural leaders in the Senate was: that a substantial reorganization of the U. S. Department of Agriculture is needed in order that farm production programs, and particularly soil conservation programs, be operated with more control in the hands of state and local officials; that existing methods of parity are antiquated and need modernizing; that price supporting programs need overhauling to make them more realistic in terms of a threatening potential surplus position of agriculture; and, generally, that while agriculture is now in a relatively favorable economic position, this is a good time to make such changes with a minimum of hardship on farmers and the economy generally.

On almost all of these points the position of House agricultural leaders was opposed. There it was felt: that most of the provisions as to reorganizing the Department of Agriculture were unacceptable, and the House Agricultural Committee had very different proposals of its own as to production and soil conservation programs; that with world needs for food (to meet nutritional goals and to implement foreign policy) continuing at or near maximum levels the present is no time to jeopardize maximum production in this country by altering the wartime commitments to support farm prices at 90 per cent of parity; that the present situation called for the continuation of the present price program for several years.

THE ACT AS PASSED IS A "COMPROMISE"

The conflicting positions of the two houses were in effect reconciled by the passage of the Act in a form that comprises the divergent views. The compromise is achieved by continuing until June 30, 1950, (with some modifications) the price support commitments which otherwise were to expire December 31, 1948. This might be said to be the Senate's concession to House views. After the expiration of these commitments the Act provides for a new method of computing parity and for a variable level of price support, ranging from 60 to 90 per cent of the "modernized" parity, with the percentage variations based on the yearly level of supplies of each commodity in relation to a "normal supply." This may thus be said to be the House's concession to Senate views. To summarize the Act in one sentence, it can be said that it continues present price supports on 1949 production, and that after that commodities will have new "parities," some higher and some lower than now, and that price support levels will be lower than under present commitments.

MOST OF PRESENT SUPPORTS CONTINUED

The Agricultural Act of 1948 continues, with some relatively minor modifications, the existing system of supporting "basic" and "Steagall" commodities at 90 per cent of parity, until December 31, 1949, with some exceptions as to this date. It should be here emphasized again that the parity price of any commodity is not an absolute, unchanging amount. To speak metaphorically, "parity" is measured by a rubber yardstick. Each commodity has a "base-period" price—1909-14 average for most commodities, but 1919-28 for citrus fruits, and tobacco, and a calculated "comparable" base for soybeans. This figure for each commodity, for example \$7.27 for hogs, is the starting point. This starting point, or base-period price, is next multiplied by an index number. That index number measures changes in the prices of the things farmers buy for living and production. It is measured in terms of 1909-14 as 100 per cent. For example, the June and July level of this index of prices paid by farmers was 251 per cent, or 2.51 times as high as it was in 1909-14. The parity price of any item at any given time, then, is the base-price multiplied by this index. For example, the July parity price of hogs was \$7.27 times 2.51, or \$18.20. Thus it may be seen that as prices paid by farmers rise and fall, parity prices of each commodity rise and fall by the same percentage.

¹The Secretary is authorized under this and previous legislation to calculate and establish a "comparable base-period" price for certain commodities where he finds that the production or consumption has so changed since 1909-14 as to make that period unsatisfactory as a base.

Thus if prices *paid* by farmers should rise to a level where they are three times the 1909-14 level, the parity price of hogs would then be \$7.27 times three or \$21.81.

The Act gives the Secretary of Agriculture authority to require compliance with production goals and marketing regulations and restrictions as a condition of eligibility for these price supports.

Authority to make payments to producers for soil conservation practices is continued by the Act until December 31, 1950.

The Act also authorizes the President, on the basis of findings by the U. S. Tariff Commission that the importation of articles renders the price supporting operations ineffective or reduces the amount of product processed from agricultural commodities, to impose import fees up to 50 per cent of the value. Such fees are not to be regarded as duties for the purpose of granting preferential concessions in international trade negotiations. At the same time such fees shall not be imposed in contravention of any existing treaties or agreements to which the country is a party at that time.

TABLE 1
PRICE SUPPORTS PROVIDED BY
AGRICULTURAL ACT OF 1948

| Commodity | Support at | Until |
|--------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------|
| Corn | 90% of parity | June 30, 1950 |
| Wheat | 90% of parity | June 30, 1950 |
| Cotton | 90% of parity | June 30, 1950 |
| Rice | 90% of parity | June 30, 1950 |
| Tobacco | 90% of parity | June 30, 1950 |
| Peanuts | 90% of parity | June 30, 1950 |
| Irish potatoes | 90% of parity or "comparable price" | All the crop harvested before January 1, 1949, is marketed |
| Milk and milk products | 90% of parity or "comparable price" | January 1, 1950 |
| Hogs | 90% of parity or "comparable price" | January 1, 1950 |
| Chickens | 90% of parity or "comparable price" | January 1, 1950 |
| Eggs | 90% of parity or "comparable price" | January 1, 1950 |
| Turkeys | | |
| Dry edible beans | | |
| Dry edible peas | | |
| Soybeans for oil | Not less than 60% of parity or "comparable price," but not more than the level of support in 1948 | January 1, 1950 |
| Flaxseed for oil | | |
| Peanuts for oil | | |
| American Egyptian cotton | | |
| Sweet potatoes | | |
| Wool | 42¢ lb., approximately | June 30, 1950 |
| All other commodities | A level to bring prices and income to "a fair parity relationship" to the above commodities, but only to the extent funds are available after commitments on above commodities have been met | January 1, 1950 |

"PERMANENT" CHANGES IN PARITY AND SUPPORT PRICES

It was seen from the above discussion and the table on price supports that most of the current provisions expire during or at the beginning of 1950. As these expire, the provisions that represent the contributions of Senate agricultural leaders are to come into effect. These are sometimes referred to as "permanent" legislation because they are designed to form the basis for relatively long-time Federal farm programs. There is, of course, very little in the way of legislation that can be counted on as permanent, since needs, conditions, and pressures are constantly changing. The new provisions do, however, represent a new stage in the evolution of farm legislation. They are likely to continue in substantially the same form as embraced in the Act for some time to come.

MODERNIZING PARITY

Parity based on historical price relationships in 1909-14, 35 to 40 years ago, has been under criticism as unrealistic and unfair for a long time. Changing tastes and habits in consumption of foods, changing technology in industry and in the farm production of commodities, and the changing role of the nation in international relations have all contributed to cost and price structures and cost-price relationships quite different today from what they were a third of a century ago. There has consequently been insistent pressure for a more modern method of computing parity prices for farm products.

The Agricultural Act of 1948 sets up a new method of calculating parity that in part, and in part only, meets this need. With a 1909-14 base, as under previous legislation and the temporary provisions of the current Act, a commodity was at parity only when a given unit, a pound or a bushel, would buy the same physical quantities of things and services used by farmers as it did in 1909-14. In the same way when the level of all farm commodity prices was such that taken as a whole they would buy the same quantities of the things farmers use as they did in 1909-14, the farm price level was at parity. The "modernized" parity differs from the old parity in respect only to the former provisions. To the extent that it seeks to maintain the same relationship between prices *received generally* by farmers and prices *paid* by them as prevailed in the 1909-14 period it fails in completely modernizing parity because it ignores the changes in the technologies of farm production and of industrial production, and in the marketing and distribution of farm and nonfarm products during the last third of a century, and the consequences of these relative changes in establishing new and different relationships between farm and nonfarm prices than held, more or less incidentally, during 1909-14. Parity in the new Act continues to be based on the 1909-14 relationship of the *level* of farm prices to the level of prices *paid* by farmers.

But the Act does "modernize" parities for individual commodities by setting as a base for the price of each

commodity the average of the most recent 10-year period. In this way the relationships among the various farm commodity prices during recent history are reflected in the parity prices; that is, recent trends in consumption and production that have affected prices are carried into the parity base for each commodity, thus "modernizing" the parity. This new base, the average of 10 years, is next to be adjusted so as to convert it to an adjusted 1909-14 base. This is done by multiplying it by the ratio of the general level of prices received by farmers in 1909-14 to the general level of prices received during the same (the most recent) 10-year period. For example, suppose that the average price received by farmers for hogs during the 10 years, 1938 through 1947, was \$12.52, and that the average level of all prices received by farmers during the same decade was 168 per cent of the 1909-14 level. The adjusted base price thus becomes \$12.52 times 100/168 or \$7.45. To get the current parity price of hogs this adjusted base-price is then to be multiplied by the index of prices paid by farmers, which was 251 per cent of the 1909-14 level for June and July. This would give a current parity price of \$18.70 if this were the method currently required by law. The parity price for hogs is currently \$18.20.

This illustration was for a commodity whose parity will be raised under the new method of calculating parity. The parities of beef cattle, hogs, milk, butterfat, wool, and several other commodities will be raised when the new provisions become effective, while the parities of other commodities, such as corn, wheat, and eggs, will be lowered. The Act provides, however, for a gradual easing into, or adjustment over to, the new parity price for those commodities that are to have a lower parity. During the period of adjustment the parity price to be used is a special one defined in the Act as "the transitional parity price." This transitional parity price is to be the parity as now calculated less five per cent for each full calendar year after January 1, 1949, and will prevail until it gets down to the new parity level. In other words, the transitional parity will be 95 per cent of parity under the present formula for 1950, 90 per cent for 1951, 85 per cent for 1952, etc., or until the level of the new parity is reached.

But even these specific provisions for the calculation of parity are not necessarily rigid. The Act gives the Secretary of Agriculture power to hold hearings and proclaim other parity prices for commodities whose parity as defined in the law is nevertheless "seriously out of line with the parity prices of other agricultural commodities."

Of current interest, although not directly connected to the major emphasis of this article, is the relationship between parity prices as calculated at present and the prices actually received by farmers for a recent date. In mid-August the index of prices received by farmers was 293 and the index of prices paid was 251 (1910-14=100). Thus farmers received for their products prices which averaged 17 per cent above parity. Corresponding data for individual commodities appear in Table 2.

PRICE SUPPORTS

When the "permanent" provisions of the new Act become effective, prices are to be supported, but at varying rates or percentages of parity depending on several conditions. The Act provides that in determining the level of price support for any one commodity consideration shall be given to the level of supply in relation to demand, to the level at which other commodities are being supported, to the availability of funds, to the perishability of the commodity, to its relative importance to agriculture and in the national economy, to the ability to dispose of stocks acquired in supporting prices, to the need for offsetting temporary losses of export markets, and to the ability of producers to adjust supplies.

For the "basic" commodities (wheat, corn, cotton, rice, tobacco, and peanuts) the percentage of parity at which prices are to be supported is to be determined under the Act by the relation of total supply at the beginning of the marketing year to a normal supply. Total supply is production plus carryover at the beginning of the marketing year, plus expected imports. Normal supply is the estimated domestic consumption in the previous year plus estimated exports for the forthcoming marketing year, plus an allowance for carryover. Prices of these basic commodities are to be supported at rates ranging from 90 per cent of the "new" parity when supplies are not more than 70 per cent of normal to 60 per cent of parity when total supplies are more than 130 per cent of normal. When total supply equals normal supply, and no

TABLE 2
PRICES RECEIVED BY FARMERS, PARITY PRICES,
AND PRICES RECEIVED AS PER CENT OF PARITY
AUGUST 15, 1948

| Item | Unit | Price Received | Parity Price | Price Received as Per Cent of Parity |
|--------------------|------|----------------|--------------|--------------------------------------|
| Wheat | bu. | \$1.96 | \$2.22 | 88 |
| Rye | bu. | 1.46 | 1.81 | 81 |
| Rice | bu. | 2.56 | 2.04 | 125 |
| Corn | bu. | 1.91 | 1.61 | 119 |
| Oats | bu. | .69 | 1.00 | 69 |
| Barley | bu. | 1.14 | 1.55 | 74 |
| Grain sorghum | cwt. | 2.07 | 3.04 | 68 |
| Hay | ton | 17.80 | 29.80 | 60 |
| Cotton | lb. | .30 | .31 | 97 |
| Cotton seed | ton | 76.60 | 56.60 | 135 |
| Soybeans | bu. | 2.91 | 2.41 | 121 |
| Peanuts | lb. | .10 | .12 | 83 |
| Flaxseed | bu. | 5.75 | 4.24 | 136 |
| Potatoes | bu. | 1.58 | 1.86 | 85 |
| Sweet potatoes | bu. | 2.65 | 2.20 | 120 |
| Dry beans (edible) | cwt. | 10.50 | 8.46 | 124 |
| Apples | bu. | 2.22 | 2.41 | 92 |
| Hogs | cwt. | 27.10 | 18.20 | 149 |
| Beef cattle | cwt. | 24.40 | 13.60 | 179 |
| Veal calves | cwt. | 26.60 | 16.90 | 157 |
| Lambs | cwt. | 24.80 | 14.80 | 168 |
| Butterfat | lb. | .81 | .63 | 129 |
| Milk, wholesale | cwt. | 5.02 | 3.94 | 127 |
| Chickens, live | lb. | .33 | .29 | 114 |
| Turkeys, live | lb. | .43 | .36 | 119 |
| Eggs | doz. | .49 | .54 | 91 |
| Wool | lb. | .47 | .46 | 102 |

SOURCE: U. S. Bureau of Agricultural Economics.

production restrictions or marketing quotas have been declared, the support level is to be 75 per cent of parity. This might be called a balance point. The complete schedule specified in the Act allows a decrease of one per cent of parity in the minimum support level for each two per cent of increase in the ratio of total to normal supplies. Assuming that these scheduled price supports were to be achieved, the schedule is thus presumed to guarantee farmers a larger return for output above "normal" needs than for output smaller than normal supply.

But these varying levels of support for prices are only the beginning of the story. Several important exceptions are listed in the Act which are more likely to be the rule. If acreage allotments are in effect when the crop was planted, or if marketing quotas have been approved by producers and are in effect at the beginning of the marketing season, the minimum support level is then to be 120 per cent (1.2 times) the minimum support provided in the schedules up to a maximum of 90 per cent of parity. Incidentally, it should be noted that this brings the support level at the "balance point" up to 90 per cent. If producers have disapproved marketing quotas, the support level is to be 50 per cent of parity. Let us see how this set of figures works out. Suppose that the total supply of corn is determined to be 11 per cent above normal supply. If there were no acreage allotments on the planting of the crop, and if there has been no referendum on marketing quotas, the Act requires the price to be supported at 70 per cent of parity. If there had been acreage allotments on the planted crop and/or marketing quotas, the support level minimum would then be 84 per cent of parity (70 per cent times 1.2). But if producers have voted against marketing quotas, the support level would be 50 per cent of parity.

An exception to all these provisions is granted to permit the support of tobacco at 90 per cent of parity whenever marketing quotas are in effect. And notwithstanding all these provisions for minimum supports the Secretary of Agriculture is given authority in the interest of national security to establish higher support levels in order to "increase or maintain" production.

On nonbasic commodities no minimum support levels are provided (except for Irish potatoes and wool). A ceiling of 90 per cent of parity is placed on price supports for such commodities. Potatoes are to be supported at 60 to 90 per cent of parity and wool at 60 to 90 per cent with the Secretary to determine what support level is necessary to yield an annual production of 360 million pounds of shorn wool. Otherwise the support of "nonbasic" commodities is to be at the discretion and under the approval and direction of the Secretary subject to the general conditions already mentioned.

In price supporting operations the Commodity Credit Corporation is not permitted to resell acquired stocks below the highest of these three measures: (1) costs of acquisition, (2) the average of the support price and parity, or (3) a price equivalent to 90 per cent of parity. These restrictions do not apply, however, to sales for new uses or by-product uses, to sales of peanuts for oil, and of wool, to sales of deteriorated products or sales to

prevent spoilage, to sales for export, nor to "sales for other than primary uses."

MARKETING QUOTAS

One of the conditions of price support required by the Act is the ability and willingness of producers to keep supplies in line with demand. To implement this condition the Secretary of Agriculture is given power to proclaim marketing quotas on the basic commodities, and to require compliance under penalty payments with such quotas when they are in effect. This is in part to be enforced by the price provisions in the Act which give higher than the scheduled supports where acreage allotments or marketing quotas are in effect, which set a support level of only 50 per cent of parity where producers reject marketing quotas by referendum, and which permit only low or nominal price supports to "non-cooperators" (those who willingly and knowingly exceed acreage allotments).

The Act provides that in the case of wheat and corn the Secretary shall proclaim marketing quotas for the crop produced in the next succeeding calendar year when he finds that the total supply for the marketing year ending in the current calendar year is more than 20 per cent above the normal supply. For cotton such quotas are to be proclaimed when the total supply has exceeded normal by eight per cent. Quotas are also to be proclaimed when for any three successive months in the marketing year the price received by farmers has not exceeded 66 per cent of parity. For tobacco the quotas are to be set up whenever the Secretary finds that the total supply exceeds normal supply. Criteria with regard to the relation between total and normal supply are not a condition to the proclamation of peanut marketing quotas.

Deadline dates are set by the legislation for the proclamation of these respective quotas. Within reasonably short times after their proclamation the Secretary is required to conduct a referendum vote among producers giving them an opportunity to accept or reject the quotas. The advantages in terms of price supports are such that it would, however, be a most unusual situation that would result in a rejection of the quotas by producers. But they can reject the quotas if more than one-third of those voting disapprove. In other words, approval of the quotas by producers requires a two-thirds vote.

SUMMARY NOTE

The above discussion is an attempt to digest as briefly as can reasonably be done the main provisions of the Agricultural Act of 1948. It should be clearly understood that these comments represent in no way whatsoever an attempt to make a legal interpretation of what the law requires. What has been attempted here is to summarize what may be called the economic provisions of the new Act, which are the current legislative framework for farm policies and programs, and are presumably to be continued in substantially this form for some time to come. However, possible changes in the agricultural situation may necessitate revisions of this Act.

MEMBER BANK LENDING IN 1947-48

(Continued from Inside Front Cover)

inflationary steps. Following the Treasury action, a number of the nation's largest banks have raised interest rates on business loans.

Because of their close tie-up with the inflation problem, future loan trends of commercial banks will bear close watching. This article seeks to provide more detailed information, from comprehensive call report data for June 30, 1948, on member bank lending activities in the Seventh Federal Reserve District during the past year through an analysis of loan trends in major District areas by size of bank and type of loan.

TRENDS BY SIZE OF BANK

The extent to which the larger District member banks in the first half of 1948 experienced a greater slowing up in lending than the smaller banks is readily seen in Table 3, which reviews loan trends among size groups of banks in each of the five District states. Not only was there a general inverse relationship between total deposit size and loan increase during the first half of 1948, but the percentage of loan increase was strikingly smaller in the banks having over 10 million dollars in deposits.

A deposit size range of 75-100 million dollars represented the rough dividing line between banks with loan declines, on the one hand, and those with a reduced rate of loan increase, compared with the preceding six months, on the other. For example, even within Chicago there were striking differences in the respective first half of 1948 loan changes among member banks, depending upon their deposit size: under 25 million, plus 9.9 per cent; 25-50 million, plus 4-8 per cent; 50-200 million, minus 2.6 per cent; and over 200 million, minus 5 per cent. Detroit, however, proved to be an exception; all of the large banks showed increases in loans during the first half of 1948.

TABLE 3
PERCENTAGE CHANGES IN TOTAL LOANS OF
SEVENTH FEDERAL RESERVE DISTRICT MEMBER
BANKS IN SELECTED AREAS DURING THE FIRST
HALF OF 1948, BY SIZE OF BANK

| Area | Member Banks Outside of Each State's Principal City, by Total Deposit Size ¹ | | | | All Member Banks | |
|--------------------------------------------------------|--------------------------------------------------------------------------------------------------|------|------|------------|----------------------------------------------------------------------------|----------------------------------------------------------------------------|
| | Under 3 | 3-5 | 5-10 | Over 10 | Excluding Those in Each State's Principal City ² | Including Those in Each State's Principal City ² |
| Illinois..... | 13.2 | 12.3 | 6.8 | 6.5 | 7.6 | -2.2 |
| Indiana..... | 14.2 | 14.5 | 9.9 | 8.8 | 10.1 | 6.5 |
| Iowa..... | 14.0 | 11.4 | 5.7 | 7.1 | 8.6 | 4.7 |
| Michigan..... | 15.1 | 11.8 | 8.8 | 6.9 | 8.4 | 6.9 |
| Wisconsin..... | 10.4 | 6.3 | 14.4 | 11.1 | 10.9 | 6.1 |
| Seventh Federal Reserve District ³ | 13.9 | 11.2 | 9.2 | 0.2 | +8.9 | 1.6 |

¹June 30, 1948 deposits in millions of dollars.

²Chicago, Indianapolis, Des Moines, Detroit, and Milwaukee.

³Includes all member banks regardless of location.

TABLE 4
BUSINESS LOAN TRENDS AMONG
SEVENTH FEDERAL RESERVE DISTRICT MEMBER
BANKS BY SELECTED AREAS, 1947-48

| Area | Percentage Change in Commercial and Industrial Loans During | | Percentage of Commercial and Industrial Loans to Total Loans as of June 30, 1948 |
|--------------------------------------------------------------------------|----------------------------------------------------------------------|---------------------|-------------------------------------------------------------------------------------------------|
| | First Half 1948 | Second Half 1947 | |
| Chicago Central Reserve City banks.... | -4.3 | +20.3 | 78.5 |
| Cook County (Chicago)..... | -3.4 | +19.5 | 72.1 |
| Marion County (Indianapolis)..... | +0.6 | + 8.3 | 64.8 |
| Milwaukee County..... | +1.8 | +14.6 | 62.8 |
| Cook County excluding Chicago Central Reserve City banks..... | +8.4 | + 8.7 | 35.9 |
| Wayne County (Detroit)..... | +1.0 | + 5.7 | 33.8 |
| Seventh Federal Reserve District ex- cluding four above counties..... | +3.3 | +13.3 | 25.4 |
| Seventh Federal Reserve District..... | -1.6 | +16.6 | 50.9 |

BUSINESS LOANS

The greater decline in loans in the larger banks is not explainable in terms of their size *per se*, but rather in terms of their much higher-than-average proportion of loans in the commercial and industrial category. These are the only types of loans in which important credit contraction has occurred recently. They comprise 60 to 80 per cent of all member bank loans in Chicago, Milwaukee, and Indianapolis, compared with only 25 per cent generally among outlying member banks (see Table 4).

Here, again, the Detroit area is exceptional among the District's four largest cities: (1) business loans are a much smaller proportion, about one-third, of total loans, and (2) both the increase in business loans in 1947 and their slowing up in 1948 were relatively moderate. Both conditions help to explain why the large Detroit banks, i.e., those with deposits in excess of 75 million dollars, experienced increases in total loans during the first half of 1948, in sharp contrast with the decreases found during the same period among similar-sized institutions in other District metropolitan centers.

The decline in aggregate business loans among both member and nonmember banks in the District and nation during the first four months of this year was partly seasonal in nature. Several other factors, however, also contributed to the decline and have influenced the subsequent irregular rise. These factors have included the organized anti-inflation campaigns within the banking system itself, restrictive influence of the first quarter Treasury cash surplus, the break in commodity and security prices which took place in February of this year, and reduced rate of inventory expansion.

Moreover, during recent months some larger business firms have funded their bank loans with insurance companies and in the security markets. Smaller firms, on the contrary, have had to rely mainly on banks for funds. The return of buyers markets in one line after another has acted to augment the demand for funds on the part of many small firms, to finance expanded sales campaigns,

increase accounts receivable, or to tide over temporary inventory gluts. Here probably is the principal reason why the smaller banks have experienced less slowing up in business loans during early 1948 than the larger banks.

In addition to the current seasonal rise, in the months immediately ahead business demands for funds will be increased if prices continue to rise and production is sustained at present high or even higher levels. For, under such conditions, business firms obviously will require more funds to support an expanded dollar volume of sales. Under full employment conditions, however, rising bank loans in themselves will be an important contributory factor to higher prices.

REAL ESTATE AND CONSUMER LOANS

In spite of the continued high level of building activity and unabated rise in over-all volume of mortgage debt outstanding, the increase in District member bank real estate loans during the first six months of 1948 was only about one-half as great as in the preceding six-month period (see Table 5). District banks, particularly those located in the larger cities, as a result, lost some of their previous postwar gains relative to savings and loan associations and other nonbank mortgage lenders.

The new housing law which became effective August 11 represents a definite attempt on the part of Congress and the Administration to stimulate the building of more dwelling units through facilitating their financing. The law revives certain lapsed Government guarantees of mortgages covering multiple-dwelling units, liberalizes such guarantees in the case of both single- and multiple-family houses, and guarantees a return of 2.75 per cent on large-scale rental properties.

In view of the existing housing shortage, it is unfortunate that increases in real estate loans under present conditions of full utilization of resources carry the same inflationary implications as do increases in other types of loans. The success of the law in stimulating more real estate lending depends in large measure on the extent to which bankers and other lenders feel that the liberalized guarantees offset lending risks which arise from increasing but inherently unstable costs and prices, appraisal policies

TABLE 6
TRENDS IN CONSUMER LOANS AMONG SEVENTH
FEDERAL RESERVE DISTRICT MEMBER BANKS
BY SELECTED AREAS, 1947-48

| Area | Percentage Change | | | | Percentage of Consumer Loans to Total Loans as of June 30, 1948 |
|------------------------------------------------------------------------------------------|------------------------------|------------------------|------------------------------------------|------------------------|-----------------------------------------------------------------------------------|
| | All Consumer Loans During | | Consumer Instal- ment Loans During | | |
| | First Half 1948 | Second Half 1947 | First Half 1948 | Second Half 1947 | |
| Cook County excluding Chicago Central Re- serve City banks..... | +11.6 | +21.6 | +24.9 | +36.3 | 24.4 |
| Wayne County (Detroit) . | +18.6 | +13.5 | +22.6 | +27.5 | 19.3 |
| Seventh Federal Reserve District excluding four counties above and be- low..... | +15.5 | +24.1 | +21.7 | +26.4 | 18.9 |
| Marion County (Indian- apolis)..... | - 0.2 | +45.1 | +35.7 | +37.0 | 16.2 |
| Cook County (Chicago) . | + 6.7 | +16.6 | +18.0 | +20.1 | 11.3 |
| Milwaukee County..... | +15.5 | + 1.6 | +28.8 | +11.1 | 9.0 |
| Chicago Central Reserve City banks..... | + 4.5 | +14.5 | +15.2 | +14.6 | 9.0 |
| Seventh Federal Reserve District..... | +12.3 | +19.2 | +20.9 | +24.0 | 14.9 |

which are still in a state of flux, and interest rates which are considered low relative to other types of investment. In recent months, the evidence is conclusive that Seventh District bank mortgage lending has become increasingly selective, and seemingly more so than among other mortgage lenders in other sections.

Among the major loan categories, consumer loans of member banks showed the greatest increase, over 12 per cent, during the first half of 1948. Furthermore, member banks in all parts of the District have continued to expand the instalment segment of their consumer loans at a steady pace since the second half of 1947 (see Table 6). Prevailing down payment and maturity requirements on instalment credit are more liberal than those announced under the new Regulation W, effective September 20, 1948. Reimposition of consumer instalment credit control by Congress is expected to slow down, but probably not reverse, the future upward movement in this type of credit. The demand for consumer instalment credit remains strong, and the supplies of those durable goods which account for the preponderance of instalment selling are continuing to reach the market in large numbers.

BANK LOANS AND INFLATION

Member bank loans increased markedly throughout the Seventh Federal Reserve District and nation during 1946 and 1947, but total loans and investments of these banks actually declined in 1946 and rose only moderately during the year 1947. In other words, a large proportion of the loan expansion during these two years was made possible through the sale by banks of some of their Government securities. This pattern has continued during 1948. Barring the resumption of large-scale deficit financing by the Federal Government, future lending activities of the banks probably will be the major factor in determining further increases in the money supply.

TABLE 5
REAL ESTATE LOAN TRENDS AMONG
SEVENTH FEDERAL RESERVE DISTRICT MEMBER
BANKS BY SELECTED AREAS, 1947-48

| Area | Percentage Change in Real Estate Loans | | Percentage of Real Estate Loans to Total Loans as of June 30, 1948 |
|--------------------------------------------------------------------------|-------------------------------------------|------------------------|--------------------------------------------------------------------------------|
| | First Half 1948 | Second Half 1947 | |
| Seventh Federal Reserve District ex- cluding four counties below..... | +9.1 | +13.8 | 43.3 |
| Wayne County (Detroit)..... | +6.8 | +17.0 | 41.2 |
| Milwaukee County..... | +5.6 | + 8.0 | 23.4 |
| Marion County (Indianapolis)... | -7.8 | + 0.6 | 9.8 |
| Cook County (Chicago)..... | +1.8 | + 9.3 | 7.7 |
| Chicago Central Reserve City banks... | +1.6 | + 8.8 | 2.7 |
| Seventh Federal Reserve District..... | +7.2 | +13.3 | 24.8 |

SEVENTH FEDERAL



RESERVE DISTRICT



